

Testimony by Representative Yoshinori Ohno
Hearing “Strengthening Social Security:
Can We Learn from Other Nations?”
Senate Special Committee on Aging

May 18, 2004

Thank you, Mr. Chairman:

I am extremely honored to be here to testify before the Senate Special Committee on Aging the Japanese pension reform now under deliberation in the Diet. In Japan, the pension reform is badly needed because our society is rapidly aging with fewer children.

The Japanese people are living longer. This is one of the greatest achievements of our society. As you see at page 5 of my written testimony, the life expectancy of the Japanese people was 68 for men and 73 for women back in 1965. Now, 78 for men and 85 for women. In 2050, 81 for men and 89 for women. This shows how rapidly the Japanese society is aging. This also shows that the discrepancy of life expectancy between men and women is getting wider and wider. Why? But that is another story. Living longer is a great pleasure, and we should not turn this pleasure into anxiety.

More serious problem than living long is extremely low birth rates. Currently, the birth rate is 1.32 per woman. It was 2.14 in 1965. Thus the Japanese population would halve by the end of the 21st century.

As you see at page 7, the average age of the first marriage is going up now. At their 20s, unmarried women occupies 2/3 of the total.

Thus, age dependency ratio is as you see at page 8. 9.1 working persons paid into the pension system to support one retiree back in 1965. Now 3.4 persons support one retiree. 1.4 is estimated to support one in 2050.

Under such circumstances, it is necessary to raise contributions and lower benefits every five years when the pension system is reviewed, and people are losing trust on their pension system. The most important task is to restore confidence in the pension system and make it sustainable for at least 100 years to come. This is, in my analysis, the fundamental purpose of the current reform because the DNA of the Japanese people is security.

The gist of our pension reform plan is as follows:

First, sustainability. In order to make the Japanese pension system sustainable for the coming 100 years, we decided to restructure the level of benefits and contributions, as you see at page 9. On the point of the level of benefits, we decided that the minimum level of pension benefits should be above 50% of the average income of working people; it is now almost 60%.

The level of contributions of the Employees' Pension currently 13.58%, will be gradually raised

to 18.3% over 14 years, each year by 0.354%.

We also decided to raise the tax-financed part of the Basic Pension from 1/3 to 1/2 within five years.

In addition to the above, first, we are going to cut down benefits for working people over the age of 70 and with high income.

Second, government proposed that, in case of a working husband and non-working wife, working husband's income-related benefits be divided half and half when both of the couple reach the age of 65. But we thought that dividing half and half of the husband's income-related benefits might be a stimulus to divorce of the loved couple. So we made the system in which the benefits will be half only when they are divorced.

The opposition party, the Democratic Party of Japan, proposed its draft law against ours.

Main points of the proposal are:

First, integration of the three categories of pension systems, that is to say, the National Pension, the Employees' Pension, and the Mutual Aid Pension, as you see at page 2.

Second, the rise in consumption tax instead of raising contribution level, and others.

Final agreement was reached, between government parties and opposition parties, that we will discuss the matters of integration later on. The draft law of the pension reform passed the House of Representatives and will pass the House of Councillors by the end of this diet session.

It is said in Japan that the pension is a gift from young generation to parents and grand parents. However, because of the rapidly aging society with fewer children, the Japanese pension system is becoming unfair between generations. People of my age are to receive benefits eight times of the paid contributions in case of Employees' Pension. But people born in 1985 and after will receive benefits only 2.3 times of the paid contributions. However, in the framework of the pension system, we will see not only the remittance of money but also we will see the gift of warm heart, which is most important in our human society.

And yet, the most important is to produce more babies. If we are successful in making the Japanese society more favorable for the youngsters to produce more babies, it is not necessary at all to discuss the level of contributions and benefits, and all the serious problems will be solved. I am sure that producing more babies is the most fundamental reform of the pension system in Japan.

Thank you, Mr. Chairman.

Overview of the Japanese Public Pension System and the Pension Reform in 2004

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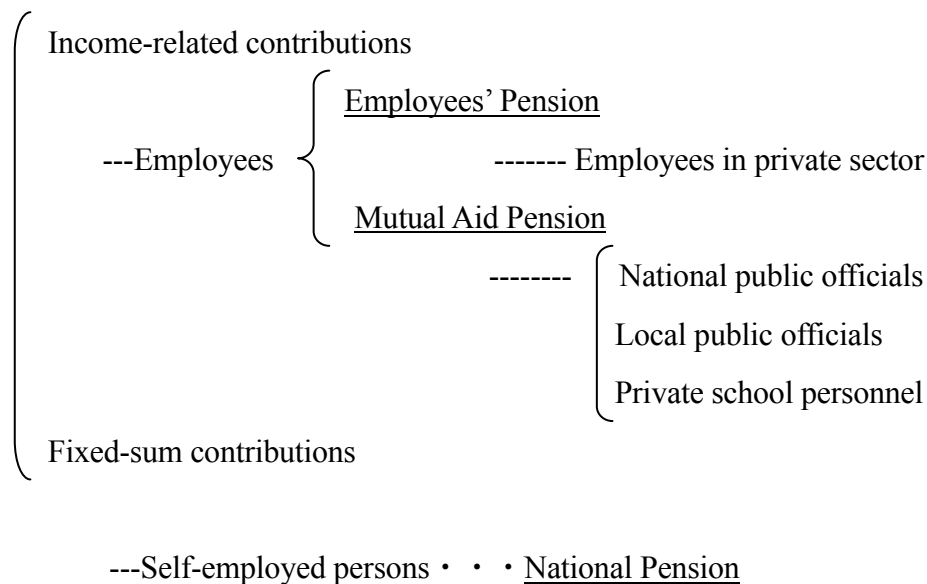
Part 1 Overview of the Japanese Public Pension System

1. History of the Japanese Public Pension System

- 1942 Public pension system was initiated in Japan. (Law Concerning the Workers' Pension Insurance was enacted.)
- 1961 Universal pension coverage (Self-employed, employed, and government officials) was achieved by the Law Concerning the National Pension.
- 1982 Compulsory coverage of foreigners living in Japan started.

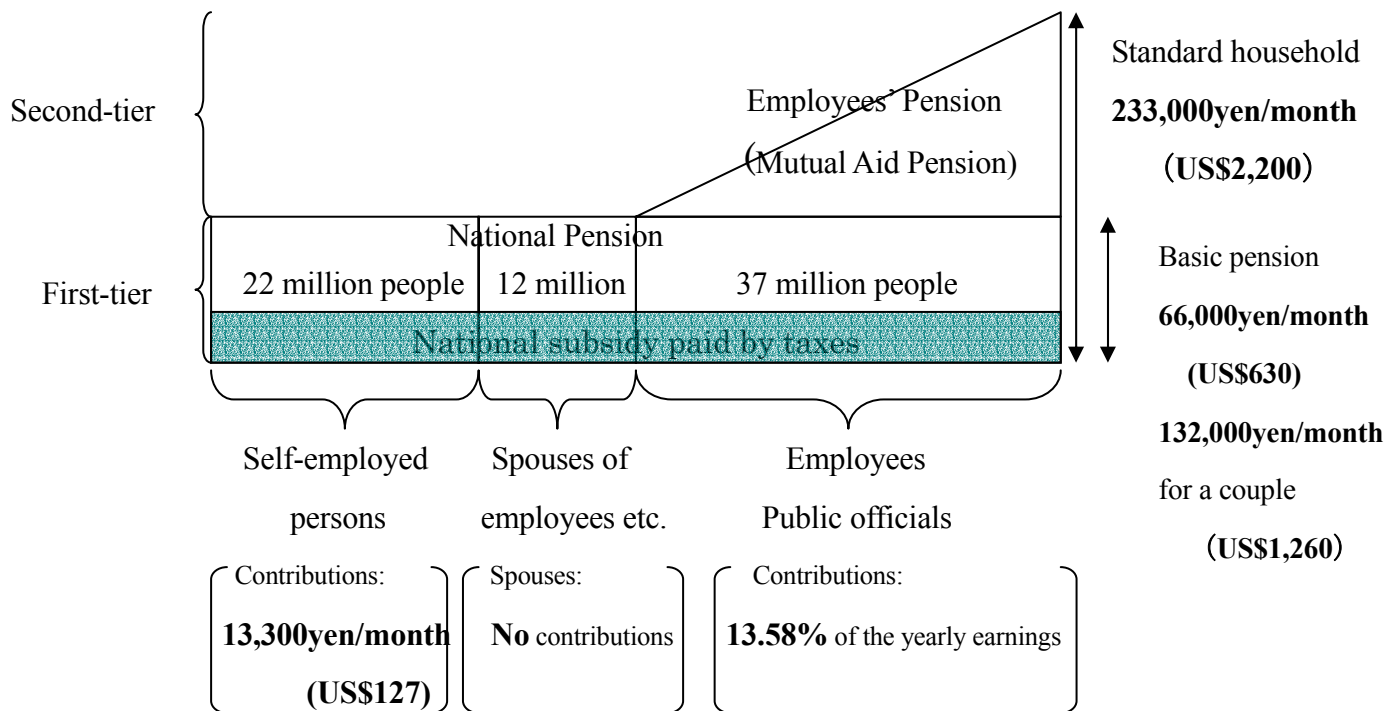
2. Framework of the Japanese Public Pension System

(1) Contributions



(2) Benefits --- Two-tier System

- Self-employed persons, including farmers, students, and others over 20 years old, are covered only by the National Pension.
- Employees are covered by the National Pension and income-related system (Employees' Pension or Mutual Aid Pension).
- Mutual Aid Pension has the third-tier, which pays almost 20% of the benefits of the second-tier, in addition to the first- and the second-tier.



(Note 1) The above-mentioned is the pension for old-age persons. In addition to old-age pension, we have the disability pension and the survivors' pension.

(Note 2) Persons covered by the Employees' Pension are entitled to receive benefits beginning in the first-half of the sixties. The age is now gradually being raised

from 60 to 65, and persons who were born on or after April 2, 1961 (April 2, 1966 for women) will receive benefits starting at the age of 65.

Part 2 Pension Reform in 2004

1. Serious Problems Japan Faces – More Old People and Fewer Children (Special Japanese Phrase “Sho-shi-ka”)

(1) Aging Society

Living longer is one of the greatest achievements of the Japanese society. Life expectancy of Japan is record-high in the world. However, pleasure of longer life should not be turned into anxiety.

--- Thus, immediate pension reform is necessary.

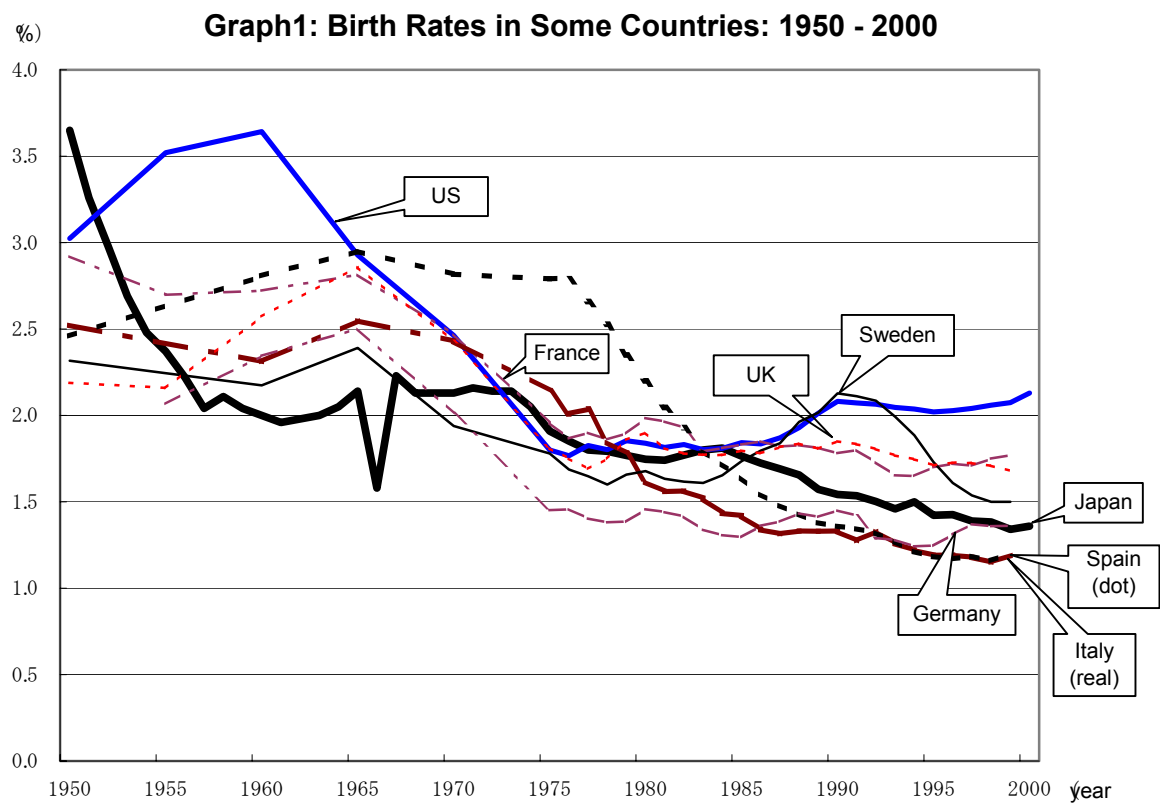
Table1: Life expectancy in Japan (years old)

Year	1965	2001	2050(estimates)
Men	67.74	78.07	80.95
Women	72.92	84.93	89.22
Difference between men and women	5.18	6.86	8.27

(2) Fewer Children

Japan is one of the few countries (Germany, Italy, etc.) that have extremely low birth rates. The birth rate of Japan is now 1.32, and we estimate that the Japanese population (now 127 million) will halve by the end of the 21st century.

--- Decrease in contributions and increase in benefits are due to the aging population with fewer children.

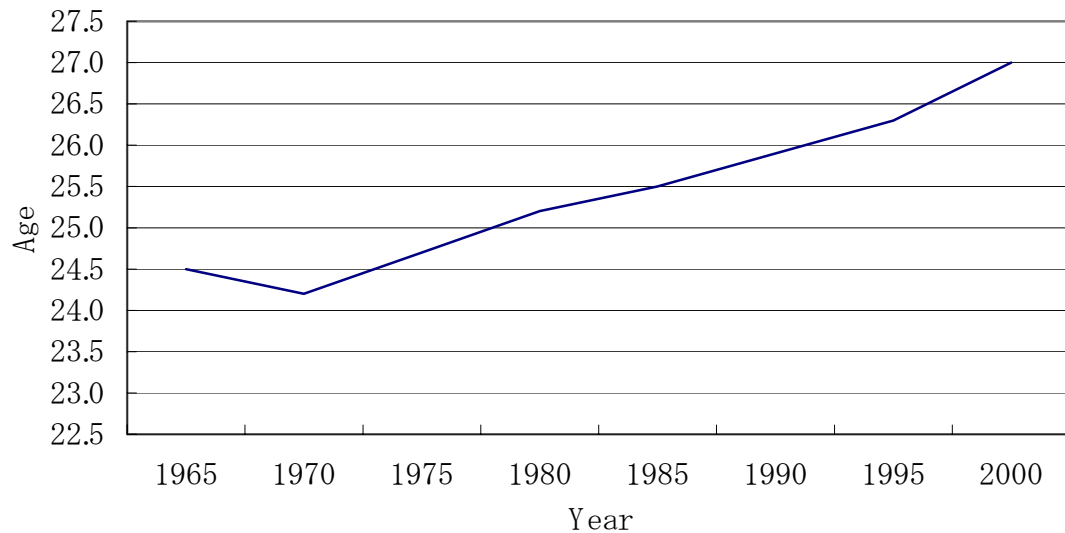


Source :UN, Demographic Yearbook, and Council of Europe, Recent demographic developments in Europe and North America Before 1991, Germany means West Germany.

(*) Causes of Fewer Children

(a) Average age of first marriage of women in Japan is rising

Graph2: Average age of first marriage of women in Japan



(b) Long working hours

40% of all the labor force is women. It is a sort of Japanese customary practice that workers stay in office even after the fixed office hours. Therefore, working men and women come back home very late and do not have much time to care children.

(c) Men do not share the housekeeping

Japanese husbands share less than 5% of total of housekeeping time.

In Norway, husbands share 40% of the family affairs.

(d) Educational expenses of children are very high

Children go to supplementary private school or cram school (in Japanese phrase “Juku”) to prepare for the entrance examinations.

Average expenses for supplementary private school are 160,000 yen (US\$1,520) /year for students of public junior high schools.

(3) Age Dependency

Age dependency in Japan is just unbelievable. The number of working generations between the age of 20 and 64 as against retirees over the age of 65 will be 1.4 in 2050.

Table 2: Age dependency

Year	1965	2001	2050
People between 20 and 64	9.1	3.4	1.4
People over 65			

(4) Summary

In Japan, it is provided for in the law that contributions and benefits are reviewed and revised every five years on the basis of demographic projection and economic forecast. So far, we were forced to revise the level of contributions and benefits every five years, that is to say, contributions are to be raised and benefits are to be decreased. Under such circumstances, the retirees and the near-retirees are losing reliability on the pension system, and younger people, joining the retirees and near-retirees, are suspicious if the pension system is sustainable. Therefore, the most important task for the pension reform is to restore confidence in the Japanese pension system on the part of Japanese people.

3. Content of the Pension Reform

(1) Sustainability

First, we must make the pension system sustainable for 100 years to come. The pension reform bill, now under deliberation in the Diet, makes it sustainable through raising the level of contributions, lowering the level of benefits, and pouring more tax money into the pension system.

(a) Level of Benefits

The level of benefits (*1) compared to average income of working people is currently 59.3% in standard household (*2). It will be lowered to 50%. However, more than 50% is secured by the reform bill.

(*1) Model case of benefits of a husband and a wife together (Retiree from company and non-working wife)

(*2) A household consisting of a husband who worked for 40 years and now retired, and a wife who has not worked at all

(b) Level of Contributions

- Contributions of the Employees' Pension (currently 13.58% as against income) will be gradually raised in 14 years (each year by 0.354%) to 18.3%, half paid by employers and half by employees, in 2017.
- Contributions of the National Pension (currently 13,300yen (US\$127) /month) will be raised gradually in 13 years (each year 280yen (US\$2.7)) to 16,900yen (US\$161) /month in 2017.

(c) National Subsidy

At present, 1/3 of the benefits of the Basic Pension is from national treasury. It will be raised to 1/2 by 2009.

(d) Pension Reserve Fund

- Pension reserve fund, which comes from contributions of the National Pension and the Employees' Pension and amounts to 141 trillion yen (US\$1.3 trillion), will be used to supplement the payment of benefits after 2050, the year when the age dependency rate will peak out in Japan.
- The size of pension reserve fund will be equal to the amount of one-year benefit payments around 2100.

(2) Other Aspects of Pension Reform – Responding to the Various Ways of Life in Japan

Pension system will become suitable for various ways of life.

(Continue to next page.)

Items	Problems in the Current System	Content of Reform
Pension system for people still working, yet already entitled to pensions	Present system has less incentive for retirees to work more. Benefits for retirees between 60 and 64 years old are reduced by 20% under the current system.	The reduction will be abolished. (Effective in April 2005)
	People between 65 and 69 pay contributions and if their total amount of income and benefits are larger than the certain level, benefits will be cut off to a certain degree. However, people over 70 do not pay contributions and their benefits are not reduced.	Cut-off rule will apply to retirees over 70; yet not necessary to pay contributions. (Effective in April 2007)
Pension in case of divorce	Non-working wives are not entitled to receive benefits income-related benefits of their former husbands after they are divorced. It is unfair.	Divorced wives are entitled to a half of the benefits coming from income-related pensions of their former husbands. (Effective in April 2007)
Pension for people who have raised children	More support should be given to families with small children.	Currently, people who have children of less than one year old are exempted from paying

		contributions. This measure will be expanded to those who have children of less than three years old. (Effective in April 2005)
Disability pension	The amount of Disability Basic Pension does not change even if disabled people work. Such work should be reflected to the amount of benefits.	Disability Basic Pension and Old-age Employees' Pension will be received simultaneously. (Effective in April 2006)

(3) Stopping the Wasteful Usage of Pension Contributions

Pension Contributions should not be used for purposes other than payment of benefits.

(a) Abolishment of Welfare Facilities

Welfare facilities, which include hospitals and hotels constructed by using the contributions, will be abolished and sold.

(b) Change in the Scheme of Pension Fund Management

Financial specialists, instead of bureaucrats, should manage pension fund on a sound and effective basis.

(c) Fundamental Reform of Pension System for Members of Diet

We are pledged that we will pursue fundamental reform on Pension System for Members of Diet.

4. Future Issues

There will be further issues to solve in the near future.

(a) Pension System Responding to the Changing Way of Life

(Part-timers, Pension and women, etc.)

(b) Integration of Public Pension Systems and the Scheme of Basic Pension

(National subsidy to the Basic Pension, Comparison to public assistance to the poor, etc.)

(c) Collection of National Pension Contributions

(*) Draft Law on the Promotion of Pension System Reform by the Democratic Party of Japan (DPJ)

(1) Gist of the Draft Law of DPJ

- (a) New public pension system, which consists of income-related pension and guaranteed pension, will be established.
 - In their so-called “income-related pension”, a person will receive benefits, the amount of which is as same as the total of paid contributions. (Contribution rate will be expected as same as present (13.58%).)
 - Guaranteed pension will be paid by tax money in case the amount of benefits of income-related pension is less than a certain level.
- (b) New category of consumption tax will be introduced to finance guaranteed pension and transitional benefits from the current system.
- (c) The pension reform will be discussed during the coming five years. Pension reform will be in force in 2008.

(2) Our Comments on the DPJ Proposal

- No clear figures are indicated in the draft law, such as level of benefits and contributions, proportion of contributions paid by employers, or rate of rise in consumption tax rate.
- What is clear is the sizable increase in consumption tax rate. DPJ hinted that the rate of consumption tax will rise by 3%. However, according to our calculation, it is estimated that the rate should be raised by 6 or 7%.
- Income-related pension has no element of mutual assistance in and between the

generations.

---It is not necessarily managed by the government.

- The financial structure of the new system is based on pay-as-you-go system. However, method of calculation of benefits is based on the funded system.
 - Expenditure and revenue of the system are not sustainable because aging society with fewer children in the Japanese demography will further be aggravated.
- The opposition party claims that the integration of the three categories of public pension systems is necessary and fundamental to establish new system.
 - However, in our analysis, the most fundamental is sustainability of the pension system for the coming 100 years. We think that the integration is desirable, but there are some difficulties involved in it; for example, the most difficult is how to take hold the income of those self-employed persons.